

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Byron-Gaines Utility Authority	County Kent
Audit Date 6/30/04	Opinion Date 9/2/04	Date Accountant Report Submitted to State: 12/8/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Siegfried Crandall PC			
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
		ZIP 49002-5599	
Accountant Signature 			Date 12/8/04

Byron-Gaines Utility Authority
Kent County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

**Members of the Commission
Byron-Gaines Utility Authority**

We have audited the accompanying basic financial statements of the Byron-Gaines Utility Authority, as of June 30, 2004, and for the year then ended, as listed in the contents. These financial statements are the responsibility of the Byron-Gaines Utility Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Byron-Gaines Utility Authority at June 30, 2004, and the changes in financial position and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 4 through 6, is not a required part of the basic financial statements, but, is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 8, the Byron-Gaines Utility Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of July 1, 2003.

Siegfried Crandall P.C.

September 2, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Byron-Gaines Utility Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Byron-Gaines Utility Authority's operations over the fiscal year and its financial condition on June 30, 2004.

Financial Highlights

- The Authority's total net assets increased \$76,902, or 6 percent, as a result of this year's operations.
- Total net assets, in the amount of \$1,320,977, were reported, of which \$1,342,166 is restricted for investment in net assets. This leaves the Authority with an unrestricted net assets deficit of \$21,189.

Overview of the Financial Statements

This discussion and analysis introduces the Authority's basic financial statements that follow this section. These financial statements are in a new format implemented during this fiscal year to comply with Governmental Accounting Standards Board Statement No. 34. The Authority's basic financial statements consist of a series of financial statements and notes to the statements.

Because this is the first year of this reporting format, a comparative analysis of the basic financial statements was not possible. Comparative analyses of the basic financial statements will be made in subsequent years.

The Statement of Net Assets reports all of the Authority's assets and liabilities along with the difference between the two, which is identified as the net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the Authority's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position.

The Statement of Revenues, Expenses, and Changes In Net Assets shows how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). This statement should help the reader to answer the question: Is the Authority, better off or worse off as a result of this year's activities?

The Statement of Cash Flows presents the Authority's cash receipts and disbursements during the fiscal year, classified by principal sources and uses.

Byron-Gaines Utility Authority
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Funds

The accounts of the Authority are organized on the basis of funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority's funds are classified in two categories:

Operating Fund. This fund accounts for the expenses involved in providing utility operation and maintenance services to the constituent municipalities who are then charged fees to recover the costs of operation. This fund uses accrual accounting which is the same method used by private sector businesses.

Fiduciary Fund. This fund is used to account for the resources held for the benefit of parties outside the government. The resources reported here represent an agency relationship and are not, therefore, available to the Authority to provide services to its customers. The Authority is responsible for ensuring that the assets reported in this fund are used for their intended purpose. The Authority's fiduciary assets and liabilities are reported in a separate Statement of Fiduciary Net Assets - Agency Fund. This fund is also reported using accrual accounting.

The notes to the basic financial statements provide additional information that is necessary to understand the data reported in the financial statements.

Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the Authority's case, assets exceeded liabilities at the end of the fiscal year by \$1,320,977. The Authority's investment in capital assets (e.g., building, equipment, and vehicles), a component of the total net assets, amounts to \$1,342,166. The Authority uses these capital assets to provide essential services to its customers; consequently, these assets are not available to be liquidated for future spending needs.

Because the Authority's investment in capital assets exceeds its total net assets, the remaining balance of unrestricted net assets is negative. The negative balance is due to the fact that certain expenses have been incurred, but not yet billed to the Authority's customers.

Statement of Revenues, Expenses, and Changes in Net Assets

The Authority experienced an increase in net assets of \$76,902. This increase is a result of nonoperating capital contributions received from the constituent municipalities to finance the acquisition of capital assets

Statement of Cash Flows

The Authority experienced a decrease in cash in the amount of \$617,018. This decrease is primarily the result of a repayment of advances from the constituent municipalities in the amount of \$755,000.

Capital Assets and Debt Administration

Capital Assets:

The Authority investment in capital assets as of June 30, 2004, amounts to \$1,342,166 (net of accumulated depreciation). Capital assets include buildings, land improvements, shop and office equipment, and vehicles.

The total increase in capital assets amounted to \$160,181. This year's major capital events included the following:

- Land improvements amounting to \$75,654
- Building improvements amounting to \$17,203
- Various equipment purchases totaling \$67,324

Long-Term Debt:

At the end of the fiscal year, the Authority's long-term debt consists of advances from the constituent municipalities that represent a working capital reserve which is to be equal to three months of budgeted direct expenses of the Authority.

Economic Condition and Outlook

During the current year, the Authority's net assets increased \$76,902 to \$1,320,977. The Authority continues to rely on support from its constituent municipalities to finance all operating costs and capital contributions.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances to its customers and creditors, and to demonstrate the Authority's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Lynn Thomas, Manager
Byron-Gaines Utility Authority
1381 84th Street SE
Byron Center, MI 49315

Phone: (616) 971-0002
E-Mail: lthomas@bgua.org

BASIC FINANCIAL STATEMENTS

Byron-Gaines Utility Authority
STATEMENT OF NET ASSETS
June 30, 2004

ASSETS

Current assets

Cash	\$ 90,543
Receivables	<u>64,439</u>

Total current assets 154,982

Noncurrent assets

Capital assets (net of accumulated depreciation)	<u>1,342,166</u>
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Total assets 1,497,148

LIABILITIES

Current liabilities

Accounts payable	8,000
Accrued expenses	21,671
Deposits	<u>1,500</u>

Total current liabilities 31,171

Noncurrent liabilities

Advances from constituent municipalities	<u>145,000</u>
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Total liabilities 176,171

NET ASSETS

Invested in capital assets	1,342,166
Unrestricted	<u>(21,189)</u>

Total net assets \$ 1,320,977

See notes to financial statements

Byron-Gaines Utility Authority**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS***Year ended June 30, 2004***OPERATING REVENUES**

Charges for services:

Charter Township of Gaines

\$ 412,974

Township of Byron

357,097

Total operating revenues

770,071**OPERATING EXPENSES**

Personnel:

Salaries and wages

259,497

Fringe benefits

86,329

Supplies:

Office

10,870

Shop

202,794

Professional services:

Engineering

73,535

Legal

291

Other

51,200

Utilities

30,214

Advertising

4,427

Repairs and maintenance

33,374

Insurance

18,483

Depreciation

56,693

Miscellaneous

26,124

Total operating expenses

853,831**OPERATING LOSS**(83,760)**NONOPERATING REVENUES**

Interest

481**CAPITAL CONTRIBUTIONS FROM CONSTITUENT MUNICIPALITIES**

Charter Township of Gaines

80,091

Township of Byron

80,090160,181**CHANGE IN NET ASSETS**

76,902

NET ASSETS - BEGINNING OF YEAR1,244,075**NET ASSETS - END OF YEAR**\$ 1,320,977*See notes to financial statements*

Byron-Gaines Utility Authority
STATEMENT OF FIDUCIARY NET ASSETS - Agency Fund
June 30, 2004

ASSETS

Due from constituent municipalities	<u>\$ 155,269</u>
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LIABILITIES

Accounts payable	<u>\$ 155,269</u>
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See notes to the financial statements

Byron-Gaines Utility Authority
STATEMENT OF CASH FLOWS
Year ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 944,652
Payments to suppliers	(569,325)
Payments to employees	<u>(237,826)</u>

Net cash provided by operating activities	<u>137,501</u>
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CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Repayment of advances from constituent municipalities	<u>(755,000)</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital contributions from constituent municipalities	369,617
Acquisition of fixed assets	(160,181)
Decrease in accounts payable	<u>(209,436)</u>

Net cash used in capital and related financing activities	<u>-</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>481</u>
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NET DECREASE IN CASH	(617,018)
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CASH - BEGINNING OF YEAR	<u>707,561</u>
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CASH - END OF YEAR	<u><u>\$ 90,543</u></u>
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Reconciliation of operating loss to net cash provided by operating activities

Operating loss	\$ (83,760)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	56,693
Decrease in receivables	173,081
Decrease in accounts payable	(29,702)
Increase in accrued expenses	19,689
Increase in customer deposits	<u>1,500</u>

Net cash provided by operating activities	<u><u>\$ 137,501</u></u>
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See notes to financial statements

Byron-Gaines Utility Authority
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Byron-Gaines Utility Authority (the Authority) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Authority. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Authority has determined that no outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Authority's financial statements.

These financial statements include all the operations of the Authority, a municipal joint venture. The Authority was created under the provisions of Act 233 of the Public Acts of Michigan of 1955, as amended, through an agreement entered into by the Township of Byron and the Charter Township of Gaines on March 4, 2002. The purpose of the Authority is to acquire, own, construct, improve, enlarge, extend, maintain and operate sewage disposal systems and water supply systems for the benefit of its constituent municipalities. Initially, it is the intent of the constituent municipalities that the Authority operate and maintain the sewage disposal systems and water supply systems located in and owned by the constituent municipalities. Capital expenditures are supported by contributions from the constituent municipalities.

The constituent municipalities have entered into contracts with certain nonconstituent municipalities for the furnishing of sewer and water service to utility systems owned by the constituent municipalities. The Authority, in a fiduciary capacity, collects money from the constituent municipalities and pays the nonconstituent municipalities for these services. This activity is accounted for in the Authority's Agency Fund.

b) Basis of accounting:

The Authority uses the accrual basis of accounting to account for its operations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed to the extent that those standards do not conflict with or contradict the standards of the Governmental Accounting Standards Board. The Authority has elected not to follow subsequent private-sector standards.

Byron-Gaines Utility Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Operating revenues and expenses:

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with principal ongoing operations. Operating revenues represent billings to the constituent municipalities for operating and maintaining the utility systems located in and owned by the constituent municipalities. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets and liabilities:

i) Cash - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - All receivables are considered to be fully collectible.

iii) Capital assets - Capital assets, which include property, equipment, and vehicles, are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	5 - 40 years
Buildings	40 years
Equipment	5 - 10 years
Vehicles	7 years

iv) Compensated absences (vacation and sick leave) - It is the Authority's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service. Vested compensated absences are accrued when earned.

NOTE 2 - CASH:

Cash consists of deposits that are carried at cost and are maintained at one financial institution in the name of the Authority. State statutes and the Authority's investment policy authorize the Authority to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. At June 30, 2004, the Authority has deposits with a carrying amount of \$90,543 and a corresponding bank balance of \$114,972. The entire bank balance is covered by federal depository insurance.

Byron-Gaines Utility Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - RECEIVABLES:

At year-end, the receivables consist of amounts due from constituent municipalities that are due within one year.

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Authority for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets, being depreciated:				
Land improvements	\$ -	\$ 75,654	\$ -	\$ 75,654
Buildings	1,116,458	17,203	-	1,133,661
Shop equipment	3,339	51,170	-	54,509
Office equipment and furniture	25,651	16,154	-	41,805
Vehicles	<u>97,078</u>	<u>-</u>	<u>-</u>	<u>97,078</u>
Subtotal	<u>1,242,526</u>	<u>160,181</u>	<u>-</u>	<u>1,402,707</u>
Less accumulated depreciation for:				
Land improvements	-	1,190	-	1,190
Buildings	25	28,361	-	28,386
Shop equipment	43	6,649	-	6,692
Office equipment and furniture	590	6,625	-	7,215
Vehicles	<u>3,190</u>	<u>13,868</u>	<u>-</u>	<u>17,058</u>
Subtotal	<u>3,848</u>	<u>56,693</u>	<u>-</u>	<u>60,541</u>
Net capital assets	<u>\$1,238,678</u>	<u>\$103,488</u>	<u>\$ -</u>	<u>\$1,342,166</u>

Depreciation expense was charged to operating expense in the amount of \$56,693.

NOTE 5 - LONG-TERM LIABILITIES - ADVANCES FROM CONSTITUENT MUNICIPALITIES:

The constituent municipalities provided a working capital reserve for the Authority which is to be equal to three months of budgeted direct expenses of the Authority.

NOTE 6 - DEFINED CONTRIBUTION PENSION PLAN:

The Authority provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate from the date of employment. The Authority contributes 10% of each qualified employee's base salary to the plan. The Authority's contributions are fully vested immediately. The Authority is not a trustee of the plan, nor is the Authority responsible for investment management of plan assets. The Authority made the required contributions of \$23,995 for the year ended June 30, 2004.

Byron-Gaines Utility Authority
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and medical benefits provided to employees. The Authority has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 8 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective July 1, 2003, the Authority implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. This change in accounting and reporting did not result in a restatement of net assets.